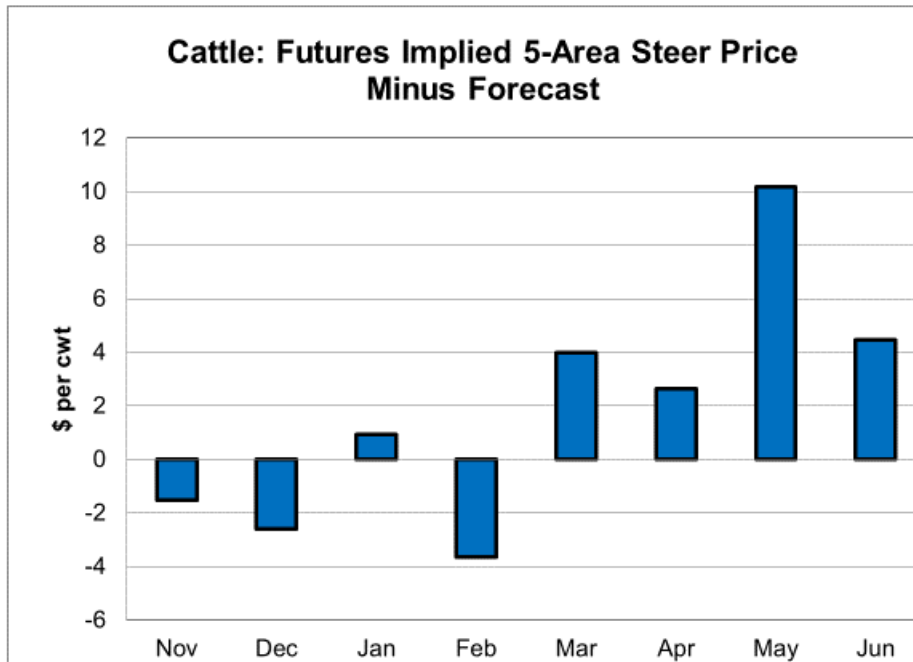


Trading Cattle

.... from a meat market perspective

A commentary by Kevin Bost

November 10, 2018



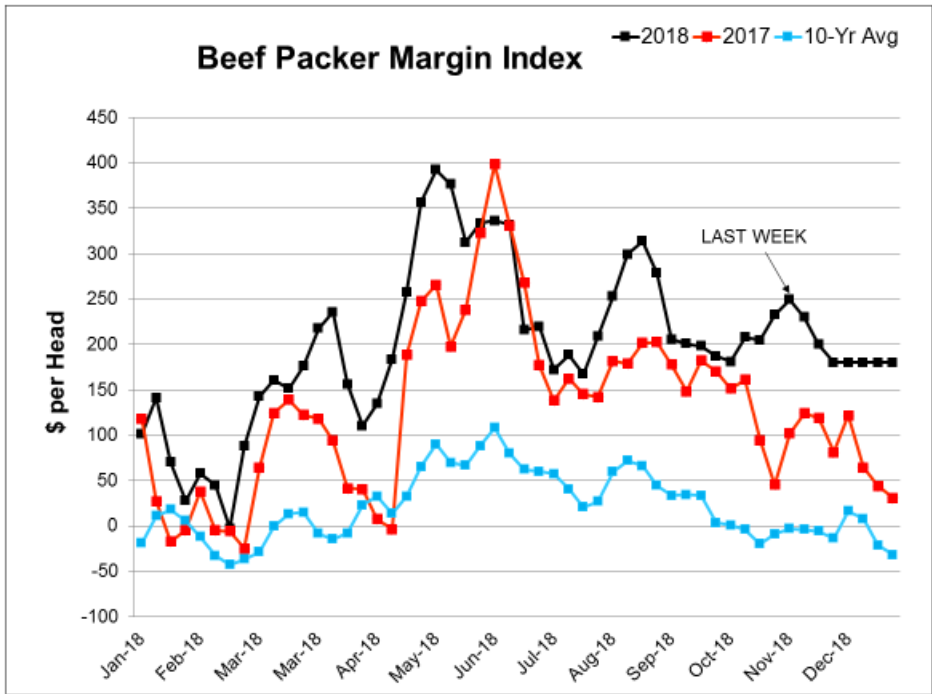
Presently I hold no position in the cattle market, but I still plan to make another run at the short side of the June contract. I had been waiting for: a) the beef market to complete its October-November seasonal

rally; and b) for the chart to confirm that the contract high has been established. Both of those conditions have been fulfilled.

The area between \$114.75 and \$115.00 per cwt should now pose formidable resistance, and should be the range in which recovery attempts will fail. This, then, is the range in which I intend to sell. The eventual downside target is \$107.50. From an entry point of \$114.75, that now offers a profit opportunity of 725 points; assigning a profit-to-risk ratio of 4:1 would require a close-only stop loss within 180 points, or \$116.55. The next major resistance level is \$116.35, and so I will employ a close-only stop at \$116.50.

As best I can tell, the combined Choice/Select cutout value will be very flat over the next six weeks, finding support not far from Friday's quote of \$211.90. End meats and 50% lean trimmings will probably lose ground in the near term, but there is a pretty good chance that ribeyes will make one more move to the upside; meanwhile, briskets and loin cuts of both "flavors" should be solidly supported. After mid-December, of course, the rib cuts will plummet but demand for other parts of the carcass should begin to ramp up.

Front and center of the near term outlook, though, is the spot packer margin, which is behaving capriciously and not at all as I had expected. I had to shove the same picture in your face again, but this is so critical that I have no choice:



Why did the packer margin index shoot up \$50 per head in the last two weeks? Why were cattle feeders such easy sellers? Frankly, I don't know. But I think it would be a mistake to assume that spot

margins will remain as wide as they are right now. This is why my forecasts of a \$116 average cash market in November and \$118 in December look as ridiculous as they do. As you know, packer margins can change dramatically within a short period of time.

And it is for this reason that I expect to be able to sell June cattle at \$114.75-\$115.00. After all, we're talking about a \$4 rally in the cash cattle market within a couple of weeks. It is also why I am mildly interested in the long December/short April spread at an April premium of about \$6.25 per cwt; and the long December/short June spread at a December premium of about \$1.00 per cwt. These are not big opportunities, but I am willing to take them if they are offered.

Forecasts:

	Nov*	Dec*	Jan*	Feb	Mar	Apr
Avg Weekly Cattle Sltr	628,000	600,000	614,000	607,000	618,000	634,000
Year Ago	625,700	593,800	595,400	594,200	600,400	620,100
Avg Weekly Steer & Heifer Sltr	495,000	475,000	479,000	475,000	485,000	502,000
Year Ago	498,600	472,600	466,400	465,800	470,400	491,300
Avg Weekly Cow Sltr	123,000	116,000	125,000	122,000	122,000	121,000
Year Ago	116,700	111,600	120,400	119,500	119,700	118,000
Steer Carcass Weights	893	886	880	873	866	853
Year Ago	902.6	902.8	892.8	884.0	877.0	861.3
Avg Weekly Beef Prodn	515	491	498	491	498	504
Year Ago	519.2	495.3	492.5	488.1	490.0	498.4
Avg Cutout Value	\$213.25	\$212.50	\$217.00	\$215.00	\$222.50	\$221.00
Year Ago	\$205.15	\$199.67	\$206.72	\$212.70	\$222.00	\$212.70
5-Area Steers	\$116.00	\$118.00	\$120.50	\$121.00	\$122.50	\$121.00
Year Ago	\$121.03	\$120.00	\$123.36	\$127.65	\$125.40	\$120.41

**Includes holiday-shortened weeks*

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